

**CITY OF ROSE CITY  
Ogemaw County, Michigan**

**Financial Report  
with Supplemental Information  
June 30, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF ROSE CITY	County OGEMAW
Fiscal Year End JUNE 30, 2006	Opinion Date DECEMBER 13, 2006	Date Audit Report Submitted to State DECEMBER 20, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

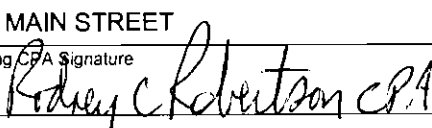
YES ☒ NO ☐

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NOT REQUIRED	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ROBERTSON & CARPENTER CPAs, P.C.		Telephone Number 989-685-2411	
Street Address 103 E MAIN STREET		City ROSE CITY	State MI
Zip 48654			
Authorizing CPA Signature 	Printed Name RODNEY C ROBERTSON	License Number 1101007829	

City of Rose City  
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Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Rose City  
Rose City, Michigan 48654

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rose City as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rose City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rose City as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and pages 28 through 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rose City's basic financial statements. The accompanying pages of other supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Robertson & Carpenter CPAs, P.C.*

Robertson & Carpenter CPAs, P.C.  
December 13, 2006

## Management's Discussion and Analysis

As management of City of Rose City (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006.

### Financial Highlights

- The assets of City of Rose City exceeded its liabilities at the close of the most recent fiscal year by \$2,911,325 (*net assets*). Unrestricted net assets for the governmental activities were \$296,945. This amount represents the part of net assets that is available to finance day-to-day operations of the City.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$302,678, an increase of \$11,503 in comparison with the prior year. Approximately 71% of the total amount, \$214,679, is available for spending at the City's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$214,679 or 55% percent of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as ***net assets***. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**The statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick or vacation leave).

Both of the government-wide financial statements present functions of the City that are principally supported by taxes and intergovernmental revenues (***governmental activities***) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (***business-type activities***). The governmental activities of the City include general government, public safety, public works, and recreation and culture. The business-type activities of the City include a sewer system and a water system.

The government-wide financial statements can be found on pages 9-10 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Rose City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, and Local Street Fund. Data from the other three non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Rose City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund, Major Street Fund and Local Street Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

**Proprietary Funds.** City of Rose City maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sewer and water activities.

The basic proprietary fund financial statements can be found on pages 14 to 16 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 17 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-27 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's budgetary comparison schedules for major governmental funds. Required supplementary information can be found on pages 28 to page 30 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining fund statements can be found on pages 31-32 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded its liabilities by \$2,911,325 at the close of the most recent fiscal year.

The most significant portion of the City's net assets (\$2,286,853, or 79%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, vehicles, and equipment). The City uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

An additional portion of the City's net assets (\$5,733, or 1%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$618,739, or 20%) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

#### City's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 323,163	\$ 301,695	\$ 323,665	\$ 283,459	\$ 646,828	\$ 585,154
Capital Assets, Net	677,266	548,032	1,609,587	1,643,607	2,286,853	2,191,639
Total Assets	<u>1,000,429</u>	<u>849,727</u>	<u>1,933,252</u>	<u>1,927,066</u>	<u>2,933,681</u>	<u>2,776,793</u>
Current Liabilities	20,485	10,587	1,871	3,539	22,356	14,126
Total Liabilities	<u>20,485</u>	<u>10,587</u>	<u>1,871</u>	<u>3,539</u>	<u>22,356</u>	<u>14,126</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	677,266	548,032	1,609,587	1,643,607	2,286,853	2,191,639
Restricted	5,733	5,733	0	0	5,733	5,733
Unrestricted	<u>296,945</u>	<u>285,375</u>	<u>321,794</u>	<u>279,920</u>	<u>618,739</u>	<u>565,295</u>
Total Net Assets	<u>\$ 979,944</u>	<u>\$ 839,140</u>	<u>\$1,931,381</u>	<u>\$1,923,527</u>	<u>\$2,911,325</u>	<u>\$2,762,667</u>

The City's net assets increased by \$148,658 during the current fiscal year discussed below.



### City's Changes in Net Assets

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Revenue:</b>						
Program Revenue:						
Charges for Services	\$116,105	\$ 131,500	\$122,401	\$ 123,993	\$ 238,506	\$ 255,493
Operating Grants	74,979	78,820	-	-	74,979	78,820
Capital Grants	-	-	20,500	20,928	20,500	20,928
General Revenue:						
Property Taxes	242,162	230,218	-	-	242,162	230,218
State-Shared Revenues	90,349	90,920	-	-	90,349	90,920
Interest Earnings	6,260	1,447	-	-	6,260	4,436
Other	42,784	8,231	7,110	2,989	49,894	8,231
<b>Total Revenue</b>	<b>572,639</b>	<b>541,136</b>	<b>150,011</b>	<b>147,910</b>	<b>722,650</b>	<b>689,046</b>
<b>Expenses:</b>						
General						
Government	106,022	109,649	-	-	106,022	109,649
Public Safety	79,212	72,971	-	-	79,212	72,971
Public Works	222,396	213,480	-	-	222,396	213,480
Recreation and Culture	14,624	14,792	-	-	14,624	14,792
Other	9,581	9,712	-	-	9,581	9,712
Sewer and Water	-	-	142,157	137,650	142,157	137,650
<b>Total Expenses</b>	<b>431,835</b>	<b>420,604</b>	<b>142,157</b>	<b>137,650</b>	<b>573,992</b>	<b>558,254</b>
<b>Increase (Decrease) in Net Assets</b>	<b>140,804</b>	<b>120,532</b>	<b>7,854</b>	<b>10,260</b>	<b>148,658</b>	<b>130,792</b>
Net Assets, Beginning of Year	839,140	718,608	1,923,527	1,913,267	2,762,667	2,631,875
<b>Net Assets, End of Year</b>	<b>\$979,944</b>	<b>\$ 839,140</b>	<b>\$1,931,381</b>	<b>\$1,923,527</b>	<b>\$2,911,325</b>	<b>\$2,762,667</b>

**Governmental activities.** Governmental activities increased the City's net assets by \$140,804 accounting for 95% of the total growth in net assets of the City. This was primarily attributed to an increase in City assets from infrastructure additions and election equipment received from the County.

**Business-type activities.** Business-type activities increased the City's net assets by \$7,854.

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$302,678, an increase of \$11,503 in comparison with the prior year. Approximately 71% of this total amount (\$214,679) constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are reserved or included in special revenue funds and not available for current general fund expenditure. The reserved portion of the general fund is \$5,733 available for police salvage costs. The fund balance amounts in special revenue funds consists of \$10,795 in the major street fund, \$42,793 in the local street fund, \$9,316 in the Parks & Recreation Fund, \$14,443 in the DDA fund and \$4,919 in the recreation fund.

The general fund is the principal operating fund of the City. At the end of the current fiscal year, unreserved fund balance and total fund balance of the general fund were \$214,679 and \$220,412, respectively. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 55% and 56% of total general fund expenditures.

The fund balance of the General Fund increased by \$6,847 during the current fiscal year.

The fund balances of the Major Street and Local Street Funds decreased by \$11,644 and \$ 876, respectively, during the current fiscal year.

**Proprietary funds.** The City proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer and Water Fund at the end of the year amounted to \$321,794. The total increase in net assets was \$7,854. Other factors concerning the finances of the fund have already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights**

The City's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The general fund budget was amended during the year, revising functional categories as needed. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various City programs.

## Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental activities and business-type activities as of June 30, 2006, amounted to \$677,266 and \$1,609,587, respectively (net of accumulated depreciation). This investment in capital assets includes infrastructure, land, buildings, vehicles and equipment. Governmental activity additions totaled \$168,967, including road improvements of \$107,851 for the fiscal year. Business-type activity additions totaled \$16,348 for the fiscal year.

### City's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 59,543	\$ 59,543	\$ -	\$ -	\$ 59,543	\$ 59,543
Infrastructure	317,428	221,961	-	-	317,428	221,961
Land improvements	56,345	61,421	-	-	56,345	61,421
Buildings and improvements	99,306	101,210	-	-	99,306	101,210
Furniture and improvements	144,644	103,897	-	-	144,644	103,897
Sewer and water systems	-	-	1,609,587	1,643,607	1,609,587	1,643,607
<b>Total Net Assets</b>	<b><u>\$ 677,266</u></b>	<b><u>\$ 548,032</u></b>	<b><u>\$1,609,587</u></b>	<b><u>\$1,643,607</u></b>	<b><u>\$2,286,853</u></b>	<b><u>\$2,191,639</u></b>

Additional information on the City's capital assets can be found in note 5 on page 24 and 25 of this report.

### Factors Bearing on the City's Future

The following factors were considered in preparing the City's budget for the 2006-2007 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2005-2006, the City received \$87,040 in state shared revenue from sales tax distributions, representing 20% of the revenues in the General Fund. The amounts of state shared revenues for future periods are uncertain and will affect the City's budgets. Our budgets were prepared with these factors in mind and will need to be revised as needed.

### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Rose City  
City Hall  
410 N. Williams  
Rose City, Michigan 48654

City of Rose City  
Statement of Net Assets  
June 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash (Note 3)	\$ 299,136	\$ 281,150	\$ 580,286
Receivables (Note 4)	1,040	42,515	43,555
Due from governmental units (Note 4)	22,987	-	22,987
Capital assets-net	<u>677,266</u>	<u>1,609,587</u>	<u>2,286,853</u>
 Total assets	 <u>1,000,429</u>	 <u>1,933,252</u>	 <u>2,933,681</u>
 <b>Liabilities</b>			
Accounts payable	6,386	1,871	8,257
Accrued and other liabilities	2,360	-	2,360
Due to other governments	2,182	-	2,182
Deferred revenue (Note 4)	<u>9,557</u>	<u>-</u>	<u>9,557</u>
 Total liabilities	 <u>20,485</u>	 <u>1,871</u>	 <u>22,356</u>
 <b>Net Assets</b>			
Invested in capital assets, net of related debt	677,266	1,609,587	2,286,853
Restricted:-			
Restricted for police inspections	5,733	-	5,733
Unrestricted	<u>296,945</u>	<u>321,794</u>	<u>618,739</u>
 Total net assets	 <u><u>\$ 979,944</u></u>	 <u><u>\$ 1,931,381</u></u>	 <u><u>\$ 2,911,325</u></u>

See accompanying notes to financial statements.

City of Rose City  
Statement of Activities  
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Capital Grants
Primary government:				
Governmental Activities:				
General government	\$ 106,022	\$ 35,401	\$ -	\$ -
Public safety	79,212	1,420	-	-
Public works	222,396	75,689	74,979	-
Recreation and culture	14,624	3,595	-	-
Community development	2,209	-	-	-
Other	7,372	-	-	-
Total governmental activities	431,835	116,105	74,979	-
Business-type activities:				
Sewage Disposal System	126,934	107,146	-	-
Water System	15,223	15,255	-	20,500
Total business-type activities	142,157	122,401	-	20,500
Total primary government	573,992	238,506	74,979	20,500
General Revenues:				
Property taxes				
State-shared revenues				
Interest and investment earnings				
Other				
Total general revenues				
<b>Change in Net Assets</b>				
Net assets - beginning of year				
Net assets - end of year				

See accompanying notes to financial statements.

Net (Expense) Revenue and  
Changes in Net Assets

Changes in Net Assets Governmental Activities	Business-type Activities	Total
\$ (70,621)	\$ -	\$ (70,621)
(77,792)	-	(77,792)
(71,728)	-	(71,728)
(11,029)	-	(11,029)
(2,209)	-	(2,209)
<u>(7,372)</u>	<u>-</u>	<u>(7,372)</u>
(240,751)	-	(240,751)
-	(19,788)	(19,788)
-	<u>20,532</u>	<u>20,532</u>
-	744	744
<u>(240,751)</u>	<u>744</u>	<u>(240,007)</u>
242,162	-	242,162
90,349	-	90,349
6,260	7,110	13,370
<u>42,784</u>	<u>-</u>	<u>42,784</u>
<u>381,555</u>	<u>7,110</u>	<u>388,665</u>
140,804	7,854	148,658
<u>839,140</u>	<u>1,923,527</u>	<u>2,762,667</u>
<u>\$ 979,944</u>	<u>\$ 1,931,381</u>	<u>\$ 2,911,325</u>

City of Rose City  
Governmental Fund  
Balance Sheet  
June 30, 2006

	General Fund	Major Street Fund	Local Street Fund
<b>Assets</b>			
Cash and investments	\$ 229,568	\$ 1,668	\$ 38,413
Accounts receivable	1,040	-	-
Due from other funds	193	-	1,503
Due from other governmental units	10,937	9,127	2,923
Total assets	<u>\$ 241,738</u>	<u>\$ 10,795</u>	<u>\$ 42,839</u>
<b>Liabilities</b>			
Accounts payable	\$ 6,344	\$ -	\$ 42
Accrued and other liabilities	1,740	-	4
Due to other funds	1,503	-	-
Due to other governments	2,182	-	-
Deferred revenue	9,557	-	-
Total liabilities	<u>21,326</u>	<u>-</u>	<u>46</u>
<b>Fund balances</b>			
Reserved for police inspections	5,733	-	-
Unreserved:			
General Fund	214,679	-	-
Unreserved-undesignated, reported in:			
Special Revenue Funds	-	10,795	42,793
Total fund balances	<u>220,412</u>	<u>10,795</u>	<u>42,793</u>
Total liabilities and fund balances	<u>\$ 241,738</u>	<u>\$ 10,795</u>	<u>\$ 42,839</u>

**Fund Balances - Total Governmental Funds**

Elimination of due to and due from governmental funds

    Due to

    Due from

Amounts reported for governmental activities in the statement of net assets are different because:

    Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

        The cost of capital assets is

        Accumulated depreciation is

**Net Assets of Governmental Activities**

See accompanying notes to financial statements.

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 29,487	\$ 299,136
-	1,040
-	1,696
-	22,987
\$ 29,487	\$ 324,859
\$ -	\$ 6,386
616	2,360
193	1,696
-	2,182
-	9,557
809	22,181
-	5,733
-	214,679
28,678	82,266
28,678	302,678
\$ 29,487	\$ 324,859
	302,678
	(1,696)
	1,696
	981,941
	(304,675)
	\$ 979,944



City of Rose City  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2006

	General Fund	Major Street Fund	Local Street Fund
<b>Revenues</b>			
Taxes and fees	\$ 196,817	\$ -	\$ 35,452
Licenses and permits	2,253	-	-
State grants	90,349	54,178	20,801
Charges for services	3,751	-	-
Fines and forfeits	252	-	-
Interest and rentals	39,330	-	-
Reimbursements	75,689	-	-
Other	30,845	-	-
Total revenues	<u>439,286</u>	<u>54,178</u>	<u>56,253</u>
<b>Expenditures</b>			
Current:			
General government	99,143	-	-
Public safety	74,181	-	-
Public works	143,946	85,822	57,129
Recreation and culture	4,222	-	-
Community development	2,209	-	-
Other	7,372	-	-
Capital outlay	61,116	-	-
Total expenditures	<u>392,189</u>	<u>85,822</u>	<u>57,129</u>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures</b>	47,097	(31,644)	(876)
<b>Other Financing Sources (Uses)</b>			
Transfers in (out)	(40,250)	20,000	-
Total other financing uses	<u>(40,250)</u>	<u>20,000</u>	<u>-</u>
<b>Change in Fund Balance</b>	6,847	(11,644)	(876)
<b>Fund balances-Beginning of year</b>	<u>213,565</u>	<u>22,439</u>	<u>43,669</u>
<b>Fund balances-End of year</b>	<u>\$ 220,412</u>	<u>\$ 10,795</u>	<u>\$ 42,793</u>

See accompanying notes to financial statements.

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 9,893	\$ 242,162
-	2,253
-	165,328
-	3,751
-	252
-	39,330
-	75,689
13,029	43,874
<u>22,922</u>	<u>572,639</u>
1,003	100,146
-	74,181
-	286,897
4,993	9,215
-	2,209
-	7,372
-	61,116
<u>5,996</u>	<u>541,136</u>
16,926	31,503
250	(20,000)
<u>250</u>	<u>(20,000)</u>
17,176	11,503
<u>11,502</u>	<u>291,175</u>
\$ <u><u>28,678</u></u>	\$ <u><u>302,678</u></u>

City of Rose City  
Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
June 30, 2006

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 11,503</b>
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;  
in the statement of activities these costs are allocated  
over their estimated useful lives as depreciation.

Depreciation expense	\$ (39,733)	
Capital outlay	61,116	
Public works - roads	<u>107,851</u>	
		129,234

Decrease in compensated absences are reported as  
expenditures when financial resources are used  
in governmental funds

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<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>140,804</u></b>
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See accompanying notes to financial statements.

City of Rose City  
Proprietary Funds  
Statement of Net Assets  
June 30, 2006

	Enterprise Funds		
	Major Fund	Major Fund	Total- Enterprise Funds
	Sewer System	Water System	
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 235,399	\$ 45,751	\$ 281,150
Accounts receivable	37,418	5,097	42,515
Due from other funds	-	695	695
Total current assets	272,817	51,543	324,360
Noncurrent assets:			
Capital assets	1,254,404	355,183	1,609,587
Total noncurrent assets	1,254,404	355,183	1,609,587
Total assets	1,527,221	406,726	1,933,947
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	1,784	87	1,871
Due to other funds	695	-	695
Total current liabilities	2,479	87	2,566
Total liabilities	2,479	87	2,566
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	1,254,404	355,183	1,609,587
Unrestricted	270,338	51,456	321,794
Total net assets	\$ 1,524,742	\$ 406,639	\$ 1,931,381

See accompanying notes to financial statements.

City of Rose City  
Proprietary Funds  
Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended June 30, 2006

	Enterprise Funds		
	Major Fund	Major Fund	Total Enterprise Funds
	Sewer System	Water System	
<b>Operating Revenue</b>			
Customer billings	\$ 107,146	\$ 15,255	\$ 122,401
Total operating revenue	107,146	15,255	122,401
<b>Operating Expenses</b>			
Contracted services			-
Utilities	19,510	2,817	22,327
Repairs and maintenance	51,252	2,289	53,541
Other supplies and expenses	12,611	3,310	15,921
Depreciation	43,561	6,807	50,368
Total operating expenses	126,934	15,223	142,157
<b>Operating Income (Loss)</b>	(19,788)	32	(19,756)
<b>Nonoperating Revenue (Expenses)</b>			
Interest income	7,110	-	7,110
Transfer from General Fund	-	20,000	20,000
Tap fees	-	500	500
<b>Change in Net Assets</b>	(12,678)	20,532	7,854
<b>Net assets</b> - Beginning of year	1,537,420	386,107	1,923,527
<b>Net Assets</b> - End of year	\$ 1,524,742	\$ 406,639	\$ 1,931,381

See accompanying notes to financial statements.

City of Rose City  
Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2006

	Enterprise Funds		
	Major Fund Sewer	Major Fund Water	Total Enterprise Funds
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 107,104	\$ 14,863	\$ 121,967
Payments to suppliers	(82,962)	(22,207)	(105,169)
Other receipts	-	-	-
Net cash provided by operating activities	24,142	(7,344)	16,798
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers from other funds	-	20,000	20,000
Transfers to other funds	-	-	-
Net cash provided by noncapital financing activities	-	20,000	20,000
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of capital assets	(16,348)	-	(16,348)
Capital contributions	-	500	500
Net cash used in capital and related financing activities	(16,348)	500	(15,848)
<b>Cash Flows from Investing Activities -</b>			
Interest received on investments	7,110	-	7,110
<b>Net Increase in Cash and Cash Equivalents</b>	14,904	13,156	28,060
<b>Cash and Cash Equivalents - Beginning of year</b>	220,495	32,595	253,090
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 235,399</u>	<u>\$ 45,751</u>	<u>\$ 281,150</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and cash equivalents	\$ 235,399	\$ 45,751	\$ 281,150
Total cash and cash equivalents	235,399	45,751	281,150
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income (loss)	(19,788)	32	(19,756)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	43,561	6,807	50,368
Changes in assets and liabilities:			
Receivables	(50)	(291)	(341)
Due from other funds	-	(101)	(101)
Accounts payable	411	(2,079)	(1,668)
Accrued and other liabilities	-	-	-
Due to other funds	8	(11,712)	(11,704)
Net cash provided by (used in) operating activities	<u>\$ 24,142</u>	<u>\$ (7,344)</u>	<u>\$ 16,798</u>

See accompanying notes to financial statements.

City of Rose City  
Fiduciary Funds  
Statement of Net Assets  
June 30, 2006

	<u>Agency Funds</u>
<b>Assets</b>	
Cash	\$ <u>          1</u>
Total assets	\$ <u><u>          1</u></u>
<b>Liabilities</b>	
Accounts payable	\$ <u>          1</u>
Total liabilities	\$ <u><u>          1</u></u>

See accompanying notes to financial statements.

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Rose City ("the City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The fund financial statements focus on major funds rather than fund types.

The following is a summary of the significant accounting policies used by the City of Rose City, Michigan:

**Reporting Entity**

The City of Rose City, Michigan is governed by six elected City Council members and an elected mayor. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the City's reporting entity, and which organizations are legally separate, component units of the City. Based on the application criteria, the financial statements present the City as the primary government. The City does not contain any component units.

**Joint Area Fire Board** - The City is a participant in the joint venture known as the Rose City Area Fire Board, along with the townships of Rose, Cumming, and Klacking. The Rose City Area Fire Board provides fire protection services to the residents of its members.

In the event of the withdrawal of one member, the withdrawing member shall receive 50% of the withdrawing member's share of the Fire Board's assets (as appraised) less any liabilities. In the event of the withdrawal of two or more members, all property shall be disposed of in any manner upon which all parties can agree as provided in the Fireboard agreement.

The most recent available information from the Fire Board's audited financial statements as of December 31, 2004:

Total Assets	\$ 138,019	Total Revenues	\$ 106,879
Total Liabilities	24,212	Total Expenditures	78,322
Total Equity	113,807	Increase in fund balance	28,557

Payments to the Fire Board by the City of Rose City for the year ended June 30, 2006 were \$14,316. Financial information for the Fire Board can be obtained from the City Clerk at the city hall in Rose City.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.



**Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis for Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and severance pay are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absence expenditures are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

**Major Street Fund** - The Major Street Fund is used to account for state grants and other revenues restricted for use maintaining and improving the Major Street highway system.

**Local Street Fund** - The Local Street Fund is used to account for state grants and other revenues restricted for use maintaining and improving the Major Street highway system.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The City reports the following major proprietary fund:

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system.

**Water Fund** - The Water Fund accounts for the activities of the water system.

Additionally, the City reports the following funds:

**Agency Funds** - Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's sewer function of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions; and (3) capital grants and contributions, including, special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services. The Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between fund that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

**Property Taxes** - Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The City's 2005 ad valorem tax is levied and collectible on July 1, 2005, and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$12,277,464, on which ad valorem taxes levied consisted of 14.8517 mills for operating purposes, .9901 for fire protection purposes, and 0.2.9703 for City streets. The tax levies resulted in \$177,272 for operating purposes, \$11,816 for fire protection purposes and \$35,452 for City streets. These amounts are recognized in the respective General and Special Revenue funds.

**Inventories and Prepaid items** - Inventories are valued at cost, on a first-in, first-out basis. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as they come due for payment, generally when there are employee terminations as of year end. Employees do not receive a payoff of unused sick and personal business days.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Note 2 - Stewardship, Compliance and Accountability**

**Budgetary Information** - The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the City Council for consideration. Public hearings are held to obtain taxpayer comments and the budgets are adopted at the activity level by a majority vote of the City Council.

The budget document presents information by fund and activity. The legal level of budgetary control adopted by the City Council is the activity level.

During the year, the budgets were amended in a legally permissible manner.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City incurred expenditure variances as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
<u>General Fund:</u>			
Public works	\$ 140,872	\$ 143,946	\$ 3,074
Capital Outlay	34,125	61,116	26,991
<u>Major Street Fund:</u>			
Public works	82,923	85,822	2,899

City of Rose City  
Notes to Financial Statements  
June 30, 2006

**Note 3 - Deposits and Investments**

At June 30, 2006, the City of Rose City's deposits and investments were reported in the basic financial statements (in addition to a General Fund petty cash fund of \$125) in the following categories:

	Governmental Activities	Enterprise Funds	Fiduciary Funds	City Total
Cash and cash equivalents	\$ 299,136	\$ 281,150	\$ 1	\$ 580,287
Investments	-	-	-	-
Total	<u>\$ 299,136</u>	<u>\$ 281,150</u>	<u>\$ 1</u>	<u>\$ 580,287</u>

The breakdown between deposits and investments for the City is as follows:

Deposits	\$ 299,136	\$ 281,150	\$ 1	\$ 580,287
	-	-	-	-
	<u>\$ 299,136</u>	<u>\$ 281,150</u>	<u>\$ 1</u>	<u>\$ 580,287</u>

**Investment and deposit risk:**

**Interest rate risk**

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: investing operating funds primarily in shorter term securities and limiting the average maturity in accordance with the City's cash requirements.

**Credit risk**

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRPs). The City has no investments for which ratings are required.

**Custodial credit risk - deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State law does not require and the City does not have a policy for custodial credit risk. At June 30, 2006, \$126,950 of the City's bank balances of \$584,478 was exposed to custodial credit risk because it was uninsured.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City is authorized by statute and City policy to invest surplus funds in the following:

- a. Bonds, securities, and other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States with remaining maturities of two years or less.
- b. Certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation.
- c. Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services.

The City's deposits are in accordance with statutory authority.

City of Rose City  
Notes to Financial Statements  
June 30, 2006

**Note 4 - Receivables**

The following is the detail of the receivables of the governmental activities due from other governmental units at June 30, 2006:

	General Fund	Major Street Fund	Local Street Fund	Total
State of Michigan	\$ 10,937	\$ 9,127	\$ 2,923	\$ 22,987
Less: Allowance for Uncollectibles	-	-	-	-
Total receivables	<u>\$ 10,937</u>	<u>\$ 9,127</u>	<u>\$ 2,923</u>	<u>\$ 22,987</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	Unearned
Rent paid in advance	\$ -	\$ 1,157
Grants	-	8,400
Totals	\$ 0	\$ 9,557
Total deferred revenue	<u>\$ 0</u>	<u>\$ 9,557</u>

**Note 5 - Capital Assets**

Capital asset activity of the City's governmental and business-type activities were as follows:

**Governmental Activities**

<u>Assets</u>	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not being depreciated - Land	\$ 59,543	\$ -	\$ -	\$ 59,543
Capital assets being depreciated:				
Infrastructure	238,693	107,851	-	346,544
Land improvements	101,624	-	-	101,624
Buildings	175,058	2,212	-	177,270
Furniture and equipment	238,056	58,904	-	296,960
Subtotal	<u>812,974</u>	<u>168,967</u>	<u>-</u>	<u>981,941</u>
<u>Accumulated Depreciation</u>				
Infrastructure	16,732	12,384	-	29,116
Land improvements	40,203	5,076	-	45,279
Buildings	73,848	4,116	-	77,964
Furniture and equipment	134,159	18,157	-	152,316
Subtotal	<u>264,942</u>	<u>39,733</u>	<u>-</u>	<u>304,675</u>
Net capital assets being depreciated	548,032	129,234	-	677,266
Net capital assets	<u>\$ 548,032</u>	<u>\$ 129,234</u>	<u>\$ 0</u>	<u>\$ 677,266</u>

City of Rose City  
Notes to Financial Statements  
June 30, 2006

**Note 5 - Capital Assets (Continued)**

**Business-type Activities**

<u>Assets</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Capital assets being depreciated				
Sewer system	\$ 2,073,913	\$ -	\$ -	\$ 2,073,913
Sewer system-buildings	37,157	-	-	37,157
Sewer system-equipment	21,320	16,348	-	37,668
Water system	510,495	-	-	510,495
Subtotal	<u>2,642,885</u>	<u>16,348</u>	<u>-</u>	<u>2,659,233</u>
 <u>Accumulated Depreciation</u>				
Sewer system	809,372	41,322	-	850,694
Buildings	20,061	1,487	-	21,548
Equipment	21,340	752	-	22,092
Water system	148,505	6,807	-	155,312
Subtotal	<u>999,278</u>	<u>50,368</u>	<u>-</u>	<u>1,049,646</u>
Net capital assets being depreciated	<u>1,643,607</u>	<u>(34,020)</u>	<u>-</u>	<u>1,609,587</u>
Net capital assets	<u>\$ 2,191,639</u>	<u>\$ 95,214</u>	<u>\$ 0</u>	<u>\$ 2,286,853</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 5,876
Public safety	5,031
Public works	23,417
Recreation	5,409
Total governmental activities	<u>\$ 39,733</u>
 Business-type activities - Sewer	<u>\$ 43,561</u>
Business-type activities - Water	<u>\$ 6,807</u>

City of Rose City  
Notes to Financial Statements  
June 30, 2006

**Note 6 - Receivables, payables and transfers**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>		<u>Amount</u>
General Fund	\$ 193	General Fund	\$	1,503
Local Street Fund	1,503	Local Street Fund		
All Ages Recreation Fund		All Ages Recreation Fund		193
Sewer Fund		Sewer Fund		695
Water Fund	695	Water Fund		
Fiduciary Funds		Fiduciary Funds		
Total	\$ <u>2,391</u>	Total	\$	<u>2,391</u>
<u>Transfer In</u>		<u>Transfer Out</u>		
Major Street Fund	\$ 20,000	General Fund	\$	40,250
Parks & Recreation Fund	250			
Water Fund	20,000			
	\$ <u>40,250</u>		\$	<u>40,250</u>

Operating transfers were made from the General Fund as subsidies of the above funds.

**Note 7 - Risk Management**

The City is exposed to various risks of loss related to theft of, damage to, and destruction of assets: errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

**Note 8 - Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan)**

**Plan Description**

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple employer defined benefit pension plan administered by the MERS Retirement Board that covers substantially all full-time employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants of MERS. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling (800) 767-6377.

**Funding Policy** - The City is required to contribute at an actuarially determined rate; the current rate is 5.56% of annual covered payroll. City employees are required to contribute 3-5% of their annual covered payroll. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City. The City's current year covered payroll and its total current year payroll for all employees amounted to \$69,680 and \$137,937 respectively. The employer contribution for the fiscal year was \$4,237. Required employee contributions for the fiscal year were \$3,484.



**Note 8 - Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan)**  
**(Continued)**

**Annual Pension Costs** - For the year ended June 30, 2006, the City's annual pension cost of \$4,237 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of December 31, 2005, using the entry age normal actuarial funding method. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0%-8.5% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 of E-2. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, are amortized as a level percent of payroll over a period of 30 years. The City of Rose City does not have an unfunded liability.

Three year trend information as December 31, 2005 follows:

	2003	2004	2005
Annual Pension Cost	\$ 15,515	\$ 11,588	\$ 7,621
Percent of APC Contributed	100%	100%	100%
Actuarial Value of Assets	470,815	481,925	493,361
Actuarial Accrued liabilities	459,429	416,950	404,102
Overfunded Actuarial Liability	11,386	64,975	89,259
Funded Ratio	102%	116%	122%
Covered Payroll	170,355	85,724	69,680
UAAL as a Percentage of Covered Payroll	0%	0%	0%

**Note 9 - Commitment - Cumming Township**

On November 6, 1997, the City Council executed an agreement with Cumming Township, whereby the Township is authorized to connect its wastewater collection system to the City's wastewater treatment system. The Township will be allowed to utilize up to 13% of the wastewater treatment system's capacity. The Township will pay all costs of connection.

Additionally, the Township agrees to pay the City for each user of the Township Collection System at rates enumerated in the City's sewer rate ordinance.

The City agrees to operate and maintain the Township's facility. The Township shall reimburse the City for the effort at its prevailing hourly rates for labor and equipment.

## Required Supplemental Information

City of Rose City  
 Budgetary Comparison Schedule - General Fund  
 Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Over (Under) Budget
<b>Fund Balance - Beginning of year</b>	\$ 212,517	\$ 212,517	\$ 213,565	\$ 1,048
<b>Resources (Inflows)</b>				
Taxes and fees	196,192	196,992	196,817	(175)
Licenses and permits	2,000	2,200	2,253	53
State grants	90,225	89,399	90,349	950
Charges for services	2,151	2,951	3,751	800
Fines and forfeits	200	200	252	52
Interest and rentals	34,260	38,864	39,330	466
Reimbursements	65,000	72,643	75,689	3,046
Other	6,100	10,265	30,845	20,580
Amounts available for appropriation	<u>608,645</u>	<u>626,031</u>	<u>652,851</u>	<u>26,820</u>
<b>Charges to Appropriations (Outflows)</b>				
General government	108,000	102,270	99,143	(3,127)
Public safety	73,833	77,113	74,181	(2,932)
Public works	148,802	140,872	143,946	3,074
Recreation and culture	8,074	5,574	4,222	(1,352)
Community and economic development	2,500	4,100	2,209	(1,891)
Other	9,600	9,600	7,372	(2,228)
Capital outlay	13,420	34,125	61,116	26,991
Transfers to other funds	20,000	40,250	40,250	-
Total charges to appropriations	<u>384,229</u>	<u>413,904</u>	<u>432,439</u>	<u>18,535</u>
<b>Fund Balance - end of year</b>	<u>\$ 224,416</u>	<u>\$ 212,127</u>	<u>\$ 220,412</u>	<u>\$ 8,285</u>

City of Rose City  
 Budgetary Comparison Schedule - Major Street Fund  
 Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Over (Under) Budget
<b>Fund Balance</b> - Beginning of year	\$ 28,831	\$ 28,831	\$ 22,439	\$ (6,392)
<b>Resources (Inflows)</b>				
Taxes and fees	-	-	-	-
State grants	105,158	53,158	54,178	1,020
Charges for services	-	-	-	-
Transfers from other funds	30,000	20,000	20,000	-
Amounts available for appropriation	<u>163,989</u>	<u>101,989</u>	<u>96,617</u>	<u>(5,372)</u>
<b>Charges to Appropriations (Outflows)</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	161,623	82,923	85,822	2,899
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total charges to appropriations	<u>161,623</u>	<u>82,923</u>	<u>85,822</u>	<u>2,899</u>
<b>Fund Balance</b> - end of year	\$ <u>2,366</u>	\$ <u>19,066</u>	\$ <u>10,795</u>	\$ <u>(8,271)</u>

City of Rose City  
 Budgetary Comparison Schedule - Local Street Fund  
 Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Over (Under) Budget
<b>Fund Balance</b> - Beginning of year	\$ 34,911	\$ 34,911	\$ 43,669	\$ 8,758
<b>Resources (Inflows)</b>				
Taxes and fees	35,576	34,381	35,452	1,071
State grants	18,500	18,096	20,801	2,705
Amounts available for appropriation	<u>54,076</u>	<u>52,477</u>	<u>56,253</u>	<u>3,776</u>
<b>Charges to Appropriations (Outflows)</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	35,192	61,092	57,129	(3,963)
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Contributions to other funds	30,000	-	-	-
Total charges to appropriations	<u>65,192</u>	<u>61,092</u>	<u>57,129</u>	<u>(3,963)</u>
<b>Fund Balance</b> - end of year	<u>\$ 23,795</u>	<u>\$ 26,296</u>	<u>\$ 42,793</u>	<u>\$ 16,497</u>

## **Other Supplemental Information**

City of Rose City  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006

	Special Revenue Funds			
	<u>Parks &amp; Recreation</u>	<u>DDA</u>	<u>All Ages Recreation</u>	<u>Total Special Revenue</u>
<b>Assets</b>				
Cash and investments	\$ 9,316	\$ 14,443	\$ 5,728	\$ 29,487
Due from other funds	-	-	-	-
Due from other governments	-	-	-	-
Total assets	<u>\$ 9,316</u>	<u>\$ 14,443</u>	<u>\$ 5,728</u>	<u>\$ 29,487</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	616	616
Due to other funds	-	-	193	193
Total liabilities	<u>-</u>	<u>-</u>	<u>809</u>	<u>809</u>
<b>Fund Balances:</b>				
Unreserved	<u>9,316</u>	<u>14,443</u>	<u>4,919</u>	<u>28,678</u>
Total fund balance	<u>9,316</u>	<u>14,443</u>	<u>4,919</u>	<u>28,678</u>
Total liabilities and fund balances	<u>\$ 9,316</u>	<u>\$ 14,443</u>	<u>\$ 5,728</u>	<u>\$ 29,487</u>

City of Rose City  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2006

	Special Revenue Funds			Total Special Revenue
	Parks & Recreation	DDA	All Ages Recreation	
<b>Revenue</b>				
Taxes and fees	\$ -	\$ 9,893	\$ -	\$ 9,893
Charges for services	-	-	-	-
Interest and rentals	-	-	-	-
Other	9,434	-	3,595	13,029
Total revenue	9,434	9,893	3,595	22,922
<b>Expenditures</b>				
General government	-	1,003	-	1,003
Culture and recreation	368	-	4,625	4,993
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	368	1,003	4,625	5,996
<b>Excess of Revenue Over (Under) Expenditures</b>	9,066	8,890	(1,030)	16,926
<b>Other Financing Sources (Uses)</b>				
Transfers in (out)	250	-	-	250
Total other financing sources (uses)	250	-	-	250
<b>Net Change in Fund Balances</b>	9,316	8,890	(1,030)	17,176
<b>Fund Balances - Beginning of year</b>	-	5,553	5,949	11,502
<b>Fund Balances - End of year</b>	\$ 9,316	\$ 14,443	\$ 4,919	\$ 28,678